



THE UNIVERSITY OF TEXAS AT DALLAS

OFFICE OF INTERNAL AUDIT
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October 26, 2017

Dr. Richard Benson, President,
Ms. Lisa Choate, Chair of the Institutional Audit Committee:

As a part of our Fiscal Year 2017 Audit Plan, Internal Audit conducted an assessment of required provisions relating to Purchasing in Senate Bill 20 and TEC §51.9337. TEC §51.9337 requires that *“The chief auditor of an institution of higher education shall annually assess whether the institution has adopted the rules and policies required by this section and shall submit a report of findings to the state auditor.”*

Based on the results of our review, UT Dallas has generally adopted all of the policies and procedures outlined in Senate Bill 20 and TEC §51.9337, and recommended enhancements are included in the attached report. This certification will be included in the Annual Internal Audit Report to the State Auditor’s Office as required under Texas Government Code §2102.

We appreciate the courtesy and cooperation of the staff in Procurement Management and the Office of Contracts Administration during this review. Please let me know if you have any questions or comments regarding this review.

Toni Stephens, CPA, CIA, CRMA
Chief Audit Executive



Executive Summary

Audit Objective and Scope

The objective of this review was determine whether UT Dallas has adopted the rules and policies required by the Texas Education Code, Section §51.9337, *Purchasing Authority Conditional; Required Standards*.

Conclusion

Overall, UT Dallas has generally adopted the rules and policies required by the Texas Education Code, §51.9337. Opportunities for enhancement are detailed in the attached report.

Audit Recommendations by Risk Level

Recommendation	Risk Level	Estimated Implementation Date
Enhance Compliance with Purchasing Requirements	Medium	January 1, 2018
<p>Responsible Vice President Mr. Terry Pankratz, Vice President for Budget and Finance</p>	<p>Responsible Parties</p> <ul style="list-style-type: none"> Ms. Deborah Reynolds, Executive Director of Procurement Management Mr. Pete Bond Assistance Vice President for Contract Administration 	
<p>Staff Assigned to Audit Project Leader: Ashley Mathew, Staff Auditor</p>		
<p>Report Distribution</p>		
<p><i>Members of the UT Dallas Institutional Audit Committee</i></p> <p>External Members</p> <ul style="list-style-type: none"> Mr. Gurshaman Bajewa Mr. Bill Keffler Mr. Ed Montgomery Ms. Julie Knecht <p>UT Dallas Members</p> <ul style="list-style-type: none"> Dr. Hobson Wildenthal, Executive Vice President Dr. Kyle Edgington, Vice President for Development and Alumni Relations Dr. George Fair, Vice President for Diversity and Community Engagement; Compliance Officer Mr. Frank Feagans, Vice President and Chief Information Officer Dr. Gene Fitch, Vice President for Student Affairs Dr. Calvin Jamison, Vice President for Administration Mr. Rafael Martin, Interim Vice President for Research Dr. Inga Musselman, Interim Provost Mr. Terry Pankratz, Vice President for Budget and Finance Mr. Timothy Shaw, University Attorney, ex-officio 	<p>Responsible Parties</p> <ul style="list-style-type: none"> Ms. Deborah Reynolds, Executive Director of Procurement Management Mr. Pete Bond Assistance Vice President for Contract Administration <p>External Agencies</p> <ul style="list-style-type: none"> The University of Texas System Audit Office <p><i>State of Texas Agencies</i></p> <ul style="list-style-type: none"> Legislative Budget Board Governor’s Office State Auditor’s Office Sunset Advisory Commission 	



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Background

During the 84th Legislative Session, [Senate Bill 20](#) (SB20) made several modifications to the existing purchasing and contracting regulations, adding new requirements for state agencies and institutions of higher education. These requirements were added to the Texas Education Code (TEC) as [TEC §51.9337](#) (*Purchasing Authority Conditional; Required Standards*).

TEC §51.9337 requires state agencies and institutions of higher education to have the following:

- A contract management handbook with consistent guidance on contract review procedures and risk analysis procedures
- Delegation of contracting authority
- Training of purchasing and contracting staff
- Code of ethics and standards of conduct, and policies on conflict of interest, conflicts of commitment, outside activities, and use of institutional resources and training
- Fraud investigation policies and internal audit risk assessment processes

At UT Dallas, responsibility and oversight for general purchasing lies primarily within the Office of Budget and Finance, with Procurement Management (PM), while Procurement Management and The Office of Contract Administration (OCA) sharing responsibility for non-research contracts¹.

Audit Objective

The objective of this review was determine whether UT Dallas has adopted the rules and policies required by the Texas Education Code, Section §51.9337, *Purchasing Authority Conditional; Required Standards*.

Scope and Methodology

The scope of this audit was FY17, and our fieldwork concluded on October 17, 2017. To satisfy our objectives, we performed the following:

- Gained an understanding of the requirements outlined in Senate Bill (SB) 20 and TEC §51.9337.
- Interviewed responsible parties within Procurement Management and the Office of Contract Administration regarding their processes and policies and procedures relating to the above requirements.
- Reviewed the applicable documentation, including policies and procedures, supporting compliance with the requirements.

¹ <http://www.utdallas.edu/contract/files/17-06-29-Contract-Mgmt-Coordination-BB.docx>



We conducted our examination in conformance with the guidelines set forth in The Institute of Internal Auditor’s *International Standards for the Professional Practice of Internal Auditing*. The *Standards* are statements of core requirements for the professional practice of internal auditing.

Additionally, we conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Results and Management’s Responses

The following requirements related to purchasing have been implemented:

- Training on Ethics and Conflict of Interest through Annual Compliance Training.
- A Contract Management Handbook was created in January 2016 using the template designed by UT System (UTS) Office of General Counsel (OGC).
- The Office of Contract Administration utilizes the contract checklists designed by the UT System Office of General Counsel for Construction, Professional Service Agreements, Special Procedure Contracts and General Procedure.
- A Delegation of Authority chart
- Policies are in place for Conflict of Interest, Conflict of Commitment and Outside Activities , Standards of Conduct, and Fraud
- A risk-based audit plan was developed for FY17 and FY18, including risk-based audits related to purchasing and contracting.

While the above requirements have been implemented, the following recommendations, considered of medium risk when taken as a whole to purchasing compliance, will help enhance the purchasing and contracting operations and compliance with purchasing requirements outlined in TEC §51.9337:

Observations
1. Current checklists and contract review procedures do not include the phrase “ <i>Value Threshold that initiates the required review by the Institution’s legal counsel unless the contract is a standard contract previously approved by the counsel</i> ” as required by TEC §51.9337(d).
2. Although they complete training when hired and while on the job, Procurement Management does not have the required Training Certification Plan per UT System Policy 156, Purchaser and Certain Contract Negotiator Training and Certification .
3. UT Dallas’ Contract Management Handbook does not fully reflect the existing controls and processes within Procurement Management, as it is more suggested best practices, than how UTD has implemented them.
In addition, though the Handbook is in place, Procurement Management does not have a policy and procedure manual covering purchasing processes.



Observations

4. Though not a requirement of the law, Procurement Management and the Office of Contracts Administration staff did not complete a General Compliance Statement as done in previous years. Also, Contract Administration does not sign ethics or COI statements. These statements are a way to demonstrate the staff's dedication to ethics and transparency in their purchase and contract processes.

Overall Recommendation:

Management should consider enhancing compliance with the requirements outlined in TEC §51.9337 and UTS 156 by including a value threshold statement, preparing a training certification plan, enhancing the handbook and implementing purchasing procedures, and ensuring compliance and ethics statements are signed on an annual basis by all purchasing and contracting staff.

Management's Response and Action Plan:

We concur with your findings and will complete the following to enhance compliance.

- 1. We will add the value threshold phrase to our current checklist.*
- 2. A training certification plan will be completed.*
- 3. Enhancements to the current Contract Management Handbook will be made.*
- 4. Purchasing and Contracts staff complete the mandatory annual training required by university which includes Ethics training. In addition, we complete the necessary System compliance statement annually. In the future, we will document the General Compliance Statement as had been done in the past.*

Estimated Date of Implementation:

January 1, 2018

Responsible Party:

Debbie Reynolds, Executive Director, Procurement Management

Pete Bond, AVP, Contracts

Conclusion

Overall, UT Dallas has generally adopted the rules and policies required by the Texas Education Code, §51.9337. Opportunities for enhancement are detailed in the above report. We appreciate the courtesy and cooperation received from the management and staff in Procurement Management and Office of Contracts Administration as part of this audit.



Priority Findings and Risk Matrix

Definition of Risks

Risk Level	Definition
Priority	High probability of occurrence that would significantly impact UT System and/or UT Dallas. Reported to UT System Audit, Compliance, and Management Review Committee (ACMRC). Priority findings reported to the ACMRC are defined as <i>“an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.”</i>
High	Risks are considered to be substantially undesirable and pose a moderate to significant level of exposure to UT Dallas operations. Without appropriate controls, the risk will happen on a consistent basis.
Medium	The risks are considered to be undesirable and could moderately expose UT Dallas. Without appropriate controls, the risk will occur some of the time.
Low	Low probability of various risk factors occurring. Even with no controls, the exposure to UT Dallas will be minimal.